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Intellectual AMMUNITION

On State and Local Issues

Potshots

■ If people concentrated on the really important things in life, there'd be a shortage of fishing poles.
Doug Larson

■ When everything else fails shoot yourself full of jokes.
Joey Adams

■ The paramount duty of a toastmaster is to be so infernally dull that the succeeding speakers will look brilliant by comparison. I've looked over this list, however, and I don't believe I can do it.
Unknown

■ Government never of itself furthered any enterprise, but by the alacrity with which it got out of the way.
Henry David Thoreau

■ The last man that makes a joke owns it.
Finley Peter Dunne

■ Giving kids public school choice only is like letting them move from coach to first class on the Titanic.
Byron Lamm

■ I suppose I do have some regrets on how I spent my life — particularly my money. A lot of it went for liquor, much of it went for women, and the rest I spent foolishly.
Unknown

■ Say what you have to say and the first time you come to a sentence with a grammatical ending — sit down.
Winston Churchill

Ten Facts About Unemployment

Ever since the work of John Maynard Keynes, economists have sought the causes of unemployment. They have blamed consumer demand, investment spending, interest rates, the money stock, exchange rates, and assorted other variables.

Government actions, however, as expressed in a wide range of public policies, generally have contributed to higher levels of unemployment rather than lower. Government fiscal policies intended to alleviate unemployment actually increase it.

❶ From 1900 to 1929, a period during which government assumed absolutely no responsibility for employment, the average rate of unemployment was under 5 percent.

❷ The period with the most expansionary fiscal policy, 1930 to 1959, had the highest average rate of unemployment in the U.S. during the 20th century.

❸ The massive unemployment of the Great Depression, rather than representing a failure of capitalism, resulted from *too much government intervention*. Herbert Hoover's efforts to raise real wages generated unemployment 28 percent higher than it would have been if real wages had remained constant.

❹ President Franklin D. Roosevelt's subsequent New Deal *prolonged*, rather than alleviated, the Depression. Without the negative impact of new federal labor laws, Social Security, and unemployment compensation, the unemployment rate would have been 6.7 percent instead of 17.2 percent.

❺ The Employment Act of 1946 made the eradication of unemployment a federal government priority. Nearly fifty years later and despite massive government involvement, unemployment remains a more significant problem than ever.

❻ After World War II, 12 million American civilians returned to the job market while the government slashed military spending. The government took a hands-off policy, the market absorbed the workers, and unemployment never rose above 4 percent.

(Continued on Page 2)

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Tools For Political Survival

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Intellectual
AMMUNITION
On State and Local Issues

Editor
Diane Carol Bast

Contributing Editors

Education • Thomas Hetland
Environment • Kent Jeffreys
Family • Bryce J. Christensen
Health Care • Joseph L. Bast
Organizations • Robert V. Pambianco
Privatization • John O'Leary
Taxes • William Ahern
Welfare • Robert Rector

Board of Directors: Bernard Baltic, Joseph Bast, Franklin M. Buchta, Robert S. Jackson, James L. Johnston, James R. Kipp, David L. Littmann, Everett H. Moffat, James K. Murphy, David H. Padden, Frank Resnik, Mike A. Roberts, Lee A. Walker, Stuart A. Wesbury, Jr., Richard Vedder.

Advertising Sales: Chicago, Marie Peters, 634 South Wabash Avenue, Second Floor, Chicago, IL 60605, 312/427-3060; **Milwaukee,** Kirby Brant, P.O. Box 53, Watertown, WI 53094-0053, 414/261-1430; **Kansas City,** Bradley J. Furnish, 15 West 10th Street #500, Kansas City, MO 64105, 816/471-8152; **St. Louis,** Emmett McAuliffe, 2458 Old Dorsett Road #230, St. Louis, MO 63043, 314/344-1100; **Detroit,** Thomas Shull, 645 Griswold #2525, Detroit, MI 48226, 313/961-1950; **Cleveland,** Judith Brenneke, 3941 Orchard Road, Cleveland Heights, OH 44121, 216/381-8452.

Publisher
Joseph L. Bast
The Heartland Institute
634 South Wabash Avenue
Second Floor
Chicago, IL 60605
312/427-3060
(fax) 312/427-4642

Business advisors: John G. B. Howland, Venture Catalysts, Inc.; Don L. Foote, First National Acceptance Company.

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❼ The Kennedy administration of the early 1960s adopted Keynesian economic theories. However, the highly successful expansionary policies of the 1960s caused long-term damage to the economy, bringing about the stagflation (stagnant economic situation) of the 1970s and early 1980s.

❽ During the 1970s, unemployment insurance payments raised the unemployment rate by nearly one full percentage point. Welfare and other forms of public aid also increase unemployment. For every one percentage point increase in the proportion of GNP devoted to public assistance, the unemployment rate increases one percentage point.

❾ From 1989 to 1992, average business employment taxes increased 16.2 percent, contributing substantially to the recession, especially as it has impacted small business.

❿ The lowest jobless rates across the United States are found where government assistance is least, keeping other factors constant. For example, states with higher workers' compensation (Ohio, Massachusetts, and California, for example) or welfare (Michigan, New York, and Louisiana, for example) have produced higher unemployment.

# # #

Research documented by Professors Richard Vedder and Lowell Gallaway, Research Fellows at the Independent Institute and coauthors of *Out of Work: Unemployment and Government in Twentieth Century America.* For more information, contact the Independent Institute, 134 Ninety-Eighth Avenue, Oakland, CA 94603; phone 510/568-5047, fax 510/568-5040.

Publisher's Note

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If you are a new subscriber to *Intellectual Ammunition*, or if you are one of nearly 2,500 newly elected state legislators seeing *IA* for the first time, you are in for a treat. *IA* is a gold mine of facts and opinions on everything from school reform and environmental protection to tax policy and welfare reform. We feature short and up-to-the-minute columns by leading authorities from the top think tanks in the nation.

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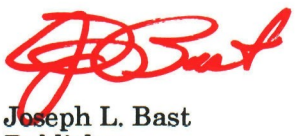
Intellectual Ammunition is just one of many publications produced by The Heartland Institute and of interest to state legislators, policy makers, opinion leaders, and vigilant taxpayers. Heartland offices in Illinois, Michigan, Missouri, Ohio, and Wisconsin publish *Policy Studies* and *Perspectives* on a wide range of state and local issues, including education, health care, privatization, taxes, and economic growth. Contact one of the Heartland offices listed on page 30 for more information.



Joseph L. Bast
Publisher

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An Economist Looks At Liberty

By David L. Littmann

Life & Liberty: A forum for the Directors and Governors of The Heartland Institute to share their personal philosophies and life experiences.

Americans are envied the world over for having a tremendous *supply* of individual liberty. But Americans' *demand* for personal liberty appears to be falling. We tolerate bankrupting fiscal policies; accept restrictions on rights guaranteed by the First Amendment, Second Amendment, and others; surrender matters of education and health to nonfamily institutions; and increasingly accept government's takeover of what formerly were individual responsibilities. *We now relinquish 34 percent of our personal incomes to government.*

The falling demand for liberty has serious implications for the long-term *supply* of liberty. Consider what happens when the demand for Batman paraphernalia falls off. Toy stores start discounting the prices on Batman stuff... and eventually manufacturers stop producing Batman stuff because it's no longer profitable to do so.

Similarly, a downward shift in the demand for liberty causes its price to erode, and there is a downshift in the supply of liberty. Elected officials and courts respond to the reduced value of liberty by pulling it off the shelves — pursuing even more aggressive policies of taxation, inflation, regulation, and explicit property "takings." Liberty becomes a "collector's item" — the less one values it today, the greater the price that must be paid in the future to regain liberties abandoned.

In stark contrast to Americans, the people of Eastern Europe began with few freedoms. For them, liberty was scarce, and the demand for it was very high. With a limited supply of liberty and an upward shift in its demand curve, the value (and price) of liberty in socialist countries soared.

If we don't demand liberty, it will become a collector's item.

The rising price of liberty increased awareness of its value to the citizenry and created an incentive that drove nations to acquire the resources necessary to supply liberty. Initially, blood, persecution, and starvation were risked to obtain liberty; there was much to gain and little to lose.

In America, where the price of liberty is comparatively low (perhaps because the perceived quantity of liberty is abundant — some say superfluous), risking life and living standards to "protect" personal rights and choices from gradual government encroachment represents the opposite case — little to gain and much to lose.

The best way to reverse the price slide of liberty in America is to teach (or advertise) the healthful qualities of the product. Like any other commodity, successful advertising and education should shift the demand curve higher.

A more perilous means of alerting Americans to the loss of liberty would be the wholesale implementation of government policies that severely restricted personal freedoms. But any such sudden, large-scale loss of freedom is unlikely.

The late Leonard Read, of the Foundation for Economic Education, predicted that Americans would never lose their liberty all at once, because they would first revolt. He pointed out that tossing a frog directly into a pot of boiling water is futile, because the frog's reflexes are too quick; as soon as its feet touch hot water, it leaps and escapes. Rather, the frog must be cooked by putting it in a pot of cold water and turning up the heat slowly; by the time the frog realizes it is being cooked, it is too weak to escape.

Liberty in America need not suffer an insidious frog fate. But unless families and educators understand, and legislators act on, the fundamental forces of supply and demand that determine the value of liberty, it's likely to go the way of Batman stuff.

# # #

David Littmann, first vice-president and senior economist for Comerica Bank in Detroit, is Michigan President of The Heartland Institute.

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Organizations

Monumental Scam on Taxpayers

On June 20, 1988, the National Republican Senatorial Committee filed a complaint with the IRS charging that a nonprofit organization, Citizen Action, and several of its state affiliates were guilty of "massive federal election and tax law violations, including the funneling of illegal corporate campaign contributions" to several 1986 political campaigns.

The complaint, filed by Jann L. Olsten, then executive director of the National Republican Senatorial Committee, accused Citizen Action of participating in "partisan political activities" in violation of the Internal Revenue Code.

The Wisconsin Action Coalition (WAC) is incorporated under Section 501(c)(4) of the Internal Revenue Code as a social welfare organization, allegedly created to work "for economic and social justice at the state and national level." However, according to the organization's own publication, *Citizen Action News*, WAC "worked for Ed Garvey in a U.S. Senate race against incumbent Robert Kasten"; and "WAC, which by itself was responsible for 2 to 4 percent of the Garvey vote, came extremely close to unseating Senator Kasten." The article claims that "WAC contacted more than 18 percent of the state's population, and worked in every Congressional District."

Though the complaint does not mention it, the same article reports that similar activity was conducted by Citizen Action affiliates in Florida, Iowa, Maryland, Pennsylvania, and Washington.

These groups also advertised in the "Help Wanted" section of various newspapers. "Develop your communications skills, learn political organizing, and defeat Bob Kasten this summer with the Wisconsin Action Coalition" appeared in the *Milwaukee Journal*, while Citizen Action advertised positions available as an "Activist" "working on the Democratic presidential campaign" in the *Washington Post*.

The "principal weapon" these campaigners use, says Olsten, is "a preferred tax status conferred on them by the IRS." WAC employs individuals to solicit contributions for the Wisconsin Citizen Education Fund. Going door-to-door, canvassers raise tax-deductible donations for the Fund, incorporated under Section 501(c)(3) of the Internal Revenue Code as a charitable organization. Contributions to the Fund are then distributed in the form of grants to WAC, which in turn contributes large amounts of money to the affiliated Wisconsin Action Coalition Political Action Committee (WACPAC). WACPAC then disperses the money directly to political campaigns and subsidiaries of the Democratic Party.

> **Citizen Action's partisan political activities seem to violate federal election and tax laws.**

The granting of 501(c)(3) status precludes a group from participating in partisan political activities outside the general membership of the organization. Yet door-to-door canvassers for WAC were instructed to add a political message on behalf of Ed Garvey and against incumbent Senator Bob Kasten when giving their "sales pitch." Robert Creamer, former executive director of Citizen Action's 501(c)(4) Illinois Public Action Council, notes that "canvassers are asked to inform our members of the endorsements made by our political committee. . . In addition, they distribute partisan literature to both members and others who do not become members."

By such means, Citizen Action and its member organizations allegedly have been funneling hundreds of thousands of dollars into Democratic coffers. "This liberal political group," said Kasten, "has been thumbing its nose at federal election and tax law for years in what amounts to a monumental scam on the American taxpayers."

Not coincidentally, all three organizations — WAC, the Wisconsin Citizen Education Fund, and WACPAC — operate out of the same offices in Milwaukee. "For too long these groups have masqueraded as many different, separate organizations when in fact they are more than likely the same activists writing on different press release paper," Olsten said. This "masquerade is not illegal," Olsten acknowledged, "but it is a hoax, nonetheless."

Though the complaint against the Wisconsin-based Citizen Action organizations was filed in 1988, the matter is still under investigation. No action has been taken by the IRS or the Federal Election Commission. And there is no reason to believe that Citizen Action intends to change its ways.

Capital Research Center

Information on this page was provided by Gregory Conko, a Research Associate at the Capital Research Center. For more information, contact the Capital Research Center, 727 15th Street NW, Eighth Floor, Washington, DC 20005-1599; phone 202/737-5677.

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Focus on:

EDUCATION

The Vouchers are Coming Here!
There are those who predict dreadful consequences, including constitutional violation, if tax-funded vouchers become available to support educational choice. They are too late. The vouchers are here; the dire predictions have failed to come true.

College Vouchers
For nearly fifty years the GI Bill has opened the doors of the college of choice for hundreds of thousands of service men and women. All but forgotten are the predictions that the program would be the ruination of American higher education. It's a tax-funded education voucher, and it's equally good at public, private, or parochial schools. It can be redeemed even at a seminary.

No constitutional problems here, once the students are beyond their K-12 years.

Pre-school Vouchers
As of October 1, 1992 all fifty states were required by law to implement a new federal child care certificate (voucher) program for pre-school children from low-income families. These families are now eligible to enroll their children in a pre-school of choice — public, private, or parochial. Tax-supported federal vouchers will pay the tuition.

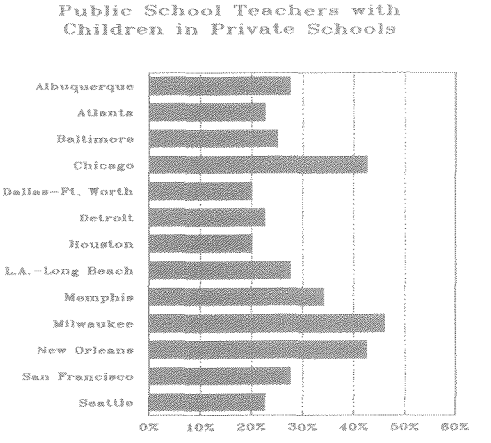
No constitutional problems here; the students are not yet in their K-12 years.

Before- and After-school Vouchers
The same federal child care program also provides for before-school and after-school child care for low-income children during their K-12 years. If the family chooses a private or parochial school during these years, it must pay the tuition from its own resources, but the federal voucher will pay the before-school or after-school child care expenses with tax dollars.

No constitutional problems here; the tax money is not being spent during the school day for these K-12 students.

The K-12 Vouchers
Finally we have the tax-supported education voucher that even penetrates the K-12 school day — the program available to the most challenging special education students. All school districts encounter students whose needs are beyond the ability of the district to meet. For the good of students struggling with a handicap or behavior disorder, arrangements are made by the district and the parents with a private provider, often a church-affiliated one, to serve these children. Tax funds are used to cover the costs of these students.

No constitutional problems here. Even though the tax dollars are being spent for a K-12 program, and even though some are being spent at religious-affiliated institutions, the benefit to the child seems to mute any opposition.



Other Vouchers
We are surrounded by vouchers in other areas of our lives as well. The welfare system relies heavily on vouchers to provide goods and services to those in need. Unemployment checks, welfare checks, food stamps, and housing vouchers all give great discretion in the use of tax dollars to those who qualify.

Everyone's Voucher
Social Security is the voucher we all hope to use someday. Like the others, it is supported by taxes, but we have complete freedom in its expenditure. No agency demands special accountability; nor is the money traceable so as to prevent it from turning up in a church collection. We can do whatever we want with it, and our freedom of choice assures our satisfaction and accountability at the same time.

As a nation we are very comfortable with vouchers. Our choice is not whether we will make education vouchers available to our children; it is whether we will make them available to *all* our children.

CENTER FOR REBUILDING AMERICA'S SCHOOLS

Thomas Hetland, FSC is the Executive Director of the Center for Rebuilding America's Schools. He is a member of the Christian Brothers and was for twenty years a high school teacher and administrator. For more information, contact Thomas Hetland, the Center for Rebuilding America's Schools, 634 South Wabash, Second Floor, Chicago, Illinois, 60605; phone 312/427-3156, fax 312/427-4642.

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Focus on:

ENVIRONMENT

High Costs in Ohio

A recent study of the costs to municipalities of compliance with various environmental regulations should be required reading for everyone who testifies in favor of federal legislation. Nine metropolitan areas were included in the study and estimates were generated for compliance costs for the years 1992-2001. The nine cities estimated that they will spend approximately $3 billion during the period to comply with 14 major environmental regulations. While frightening, these estimates seem quite accurate. Columbus, Ohio, for example, already spends over 10 percent of its current annual budget on environmental compliance. Municipal governments cannot expect relief unless Washington changes its approach to regulation.

For a copy of the report, contact Michael J. Pompili, Assistant Health Commissioner, 614/645-6181.

EPA Taps Water for Price Increases

Yet another example of excessive regulation involves radon in drinking water and the federal EPA's attempts to impose incredibly strict standards to control exposure. The EPA claimed that the nationwide costs of compliance would be about $1.6 billion in capital costs and another $180 million each year for maintenance. Yet the Association of California Water Agencies (ACWA) estimates that the compliance cost for California alone would exceed $3.5 billion. Compliance costs for the United States as a whole could reach $20 billion. The ACWA found that existing exposures to radon would only be reduced by about 1 percent after these billions were spent . . . that is, wasted. EPA's new chief, Carol Browner, is so closely associated with Vice President Al Gore that she seems to be his hand puppet rather than a mere protege. It is unlikely that she will slow down EPA's relentless march to regulate the American home.

50 Reasons to Oppose Gas Tax Increase

The usual suspects are lining up behind proposals to raise the federal tax on gasoline and other energy sources. According to these "experts," raising energy taxes will balance the budget, reduce pollution, thwart Persian Gulf oil producers, and clear up teenage acne. This familiar refrain in favor of tax increases confuses many citizens into agreement or quiet acceptance. Some state officials believe that they will get a share of the spoils from such tax increases. Yet according to a 1990 study from the National Association of State Budget Officers, the states would *lose* billions of dollars in local revenues should the federal taxes go up. Instead of raising taxes (and lowering state revenues), the federal government should try cutting spending first. And second.

State Revenue Loss from a Federal Gas Tax Increase

State	Revenue Loss in Millions of Dollars	
	10-Cent Increase	25-Cent Increase
California	$473	$1,181
Texas	$378	$945
Ohio	$240	$600
Illinois	$235	$587
North Carolina	$185	$463
Florida	$175	$438
New York	$162	$406
Massachusetts	$160	$401
Michigan	$159	$398
Pennsylvania	$158	$395
Total Loss to States	**$5,067**	**$12,667**

EPA All Wrong

In late 1992, 39 cities were compelled by the EPA to switch automobiles over to gasoline mixed with ethanol or methanol in order to meet winter carbon monoxide standards. Unfortunately for EPA, such fuels don't make much of a difference. In fact, little of what EPA does on air pollution works. A *Forbes* magazine article notes, for example, that EPA's "sophisticated" computer models *exaggerated by 300 percent* the projected effectiveness of California's mandatory car inspection program. EPA now proposes "high-tech" testing of all autos, at a cost of $17 each. The Agency seems to be ignoring completely (1) inventor Donald Stedman's remote sensing device, which tests auto emissions for just 50 cents a car; and (2) the well-known fact that the bulk of automobile pollution is produced by just one in every ten cars.

See Leslie Spencer, "Not invented here," *Forbes*, October 12, 1992.

CEI

Information on this page was provided by Kent Jeffreys, director of environmental studies at the Competitive Enterprise Institute, 1250 H Street NW, Suite 700, Washington, DC 20005-3908; phone 202/783-3870.

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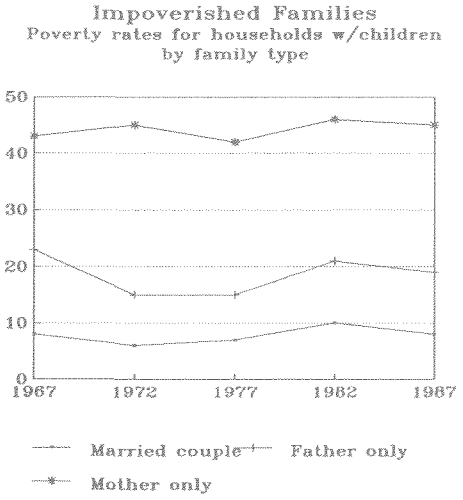
Focus on:

FAMILIES

Not Helping Out

Older parents whose marriages have failed are significantly less likely to give their adult children financial, emotional, or other assistance than are parents whose marriages endured. Adult children report "reduced chances of parental support . . . if parents are no longer married to each other." Parental marital status also affects the likelihood that adult children will even consider their parents as "a potential source of help in case of need."

"Support from Parents Over the Life Course: The Adult Child's Perspective," *Social Forces* 71 (1991).



Brightened Lives

Young adults from intact families are less likely to suffer depression and other emotional problems than are young adults who as children watched their parents divorce. A recent study found that at age 22, children from intact families were significantly less vulnerable to depression than peers whose parents divorced. Only 11.5 percent of daughters of intact families "scored for depression" on standardized tests, while 17.4 percent of the daughters from divorced families so scored. Among sons, the figures were 7.8 percent vs. 14.0 percent. Young adults from intact families were also less likely to drink or smoke heavily.

"Parental Divorce, Adolescence, and Transition to Young Adulthood: A Follow-Up Study," *American Journal of Orthopsychiatry* 63 (1992): 421-429.

Suffering Stepchildren

According to researchers, "children in stepfamilies [have] more behavior problems, less pro-social behavior, and more life stress than children in nuclear families."

Evidence indicates that relationships in stepfamilies are particularly negative between stepfathers and their stepchildren, especially stepfathers and stepsons.

"Longitudinal Changes in Stepfamilies: Impact on Children's Adjustment," paper presented 15 August 1992 at the Annual Meeting of the American Psychological Association, Washington, D.C.

Employed But Poor

Among the many American mothers who have sought paid employment in recent decades, relatively few of the unmarried were escaping from poverty. A recent study shows that since 1967 "even though women's probability of employment, as well as their earnings, have improved relative to those of men," the economic well-being of "female-headed households or women has actually deteriorated relative to the [economic well-being] experienced by families with a male adult." The reason is "that women's economic future is more adversely affected by divorce than is men's."

The authors consider it "a paradox" that poor adults are disproportionately divorced mothers, but that "the increase in divorce is probably itself a result of women's increased economic independence."

"Trends in Women's Economic Status," *Sociological Perspectives* 35 (1992): 17-51.

Flunking Out

Teens who live in a stepfamily or with a single parent are more likely to drop out of high school than peers in intact families.

"Not living with both parents at age 14 has negative consequences for children's high school graduation regardless of whether the child lives with a single parent, a parent and stepparent, or neither parent." Specifically, 85 percent of adolescents who live in intact families between ages 14 to 17 graduate, compared to just 67 percent of peers living in single-parent homes, 65 percent of peers in stepfamilies, and 52 percent of peers living with neither parent.

"The Effects of Parental Marital Status During Adolescence on High School Graduation," *Social Forces* 71 (1992): 103-121.

THE ROCKFORD INSTITUTE

Information on this page was provided by Bryce J. Christensen, editor of *New Research*, a monthly supplement to *The Family in America*, published by The Rockford Institute. For more information, contact Allan Carlson or Dr. Christensen at The Rockford Institute, 934 North Main Street, Rockford, IL 61103, phone 815/964-5053, fax 815/965-1826.

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Focus on:

HEALTH CARE

The Disappearing Canadian Model

Just as some Americans are clamoring for "Canadian-style" health care reform, Canadians are in the process of dumping their system. In June 1990, the Canadian federal government passed Bill C-69, capping federal funding of provincial health care programs. Without the federal government picking up its traditional 50 percent of costs, most provinces are expected to abandon national health insurance and return to some kind of mixed private and public insurance system.

National Association of Health Underwriters, *Legislative Alert*, October 1992.

The Disappearing HMO Model

The "HMO Model" touted by advocates of "managed competition" also is difficult to find. Fewer than two in ten Americans (16.6 percent) are enrolled in HMOs, even though by law all large employers must offer an HMO option to their employees. Preferred Provider Organizations (PPOs), which allow fee-for-service medicine and patient choice of doctors, had twice the enrollment of HMOs in 1991.

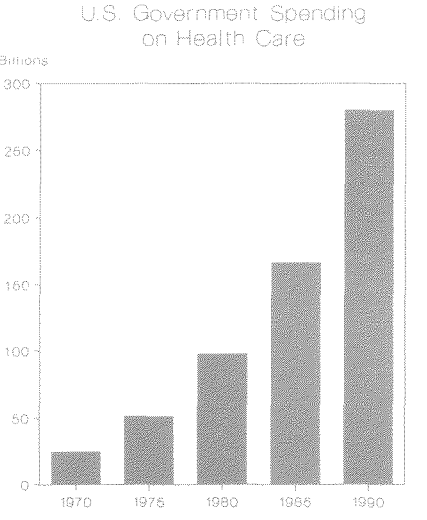
Several reasons explain the slow growth of traditional HMOs. Patients feel HMOs leave them at the mercy of inconsiderate or even incompetent doctors and nurses, and they resent having to wait weeks or even months for routine tests and consultations. Doctors resent having to allow administrators to second-guess their decisions. Employers complain that promised savings never materialize: half of employers responding to a recent survey said their HMO rates were as high or higher than their non-managed care plan costs. Even government isn't satisfied: a Congressional Budget Office survey found that enrolling Medicare patients in HMOs "had little or no effect on hospital use and costs."

See A. Foster Higgins, *Health Care Benefits Survey 1991, Report 2, Managed Care Plans*, 1992; Congressional Budget Office, *CBO Staff Memorandum*, "The Effects of Managed Care on Use and Costs of Health Services," June 1992.

What Drives the Managed Competition Movement?

It is no coincidence that "managed competition" has become a serious policy proposal just as HMOs are taking a beating in the medical markeplace. Saving HMOs from the judgment of consumers is part of what managed competition is all about.

Alain Enthoven, the most prominent advocate of managed competition, is a paid consultant to Kaiser Permanente, the nation's largest operator of HMOs. His colleague and frequent coauthor Paul Ellwood drafted the 1973 legislation that gave HMOs their name and legal status. Both men are deeply disappointed that HMOs have lost out to other forms of health care delivery, and both see no problem with achieving by force of law what could not be achieved peacefully in the markeplace.



Saving "the Blues" — Blue Cross and Blue Shield — is another reason for managed competition. Responsible for much of the price inflation in health care by paying hospitals directly and on a cost-plus basis, rather than paying patients who could then shop around for the best bargains, the Blues have been hard-pressed by for-profit competitors in recent years. Their close ties to hospitals and use of community rating make them perfect candidates for transformation (or maybe just re-labeling) into the "Accountable Health Partnerships" envisioned by the Jackson Hole Group. This, too, is no coincidence.

The advocates of managed competition seem more interested in protecting the interests of multi-billion dollar corporations than in helping individual patients. That the national media pay so much attention to them is a tribute to their powerful patrons, not to the strength of their ideas.

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Information on this page was provided by Joseph L. Bast, president of The Heartland Institute. For more information, contact The Heartland Institute, 634 South Wabash, Second Floor, Chicago, Illinois, 60605, phone 312/427-3060, fax 312/427-4642.

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Focus on:

PRIVATIZATION

Privatization Popular at State Level
Fiscal pressures have prompted governors and legislators to restructure, downsize, and "rightsize" state government. Privatization has emerged as an important tool in this effort.

The Reason Foundation has released two reports to help state officials make use of privatization.

In addition to Illinois, whose recently appointed task force has not yet issued its recommendations, several states are pursuing privatization options.

Advantages of Privatization
Save Taxpayers' Money
Increase Flexibility
Improve Service Quality
Increase Efficiency and Innovation
Allow Policymakers to Steer, Rather Than Row
Streamline and Downsize Government
Improve Maintenance

Michigan
The Michigan Public-Private Partnership Commission, established by Executive Order by Governor John Engler on July 30, 1992, issued its much-anticipated final report in late December.

The Commission recommended that Michigan conduct a comprehensive analysis of every activity and program of state government, including those programs already privatized. This systematic review process is coined PERM: Privatize, Eliminate, Retain (in present form), or Modify.

Among the dozens of assets and services that are recommended for further analysis are the Bluewater and International Bridge, child support collections, printing, workers' compensation insurance, fish hatcheries, mental health facilities, and state fairgrounds and parks.

Maryland
Also issuing its final report in December was a Task Force on Privatization established in July by Maryland Governor William Schaeffer. The task force's report states that Maryland state government "should always consider whether the public or private sector will be more effective in increasing efficiency, improving quality or reducing cost on any particular operation." The report advocates that "Privatization should be a routine process whereby public managers think first of the feasibility of using the private sector as a means to provide government services."

The report highlights over 50 activities of state government that merit further assessment for privatization feasibility. The report recommends the adoption of a statewide policy for privatization and the establishment of a seven-member Advisory Council on Privatization.

Mississippi
Mississippi is preparing to launch a privatization program as well. In November 1992, the Performance Evaluation and Expenditure Review (PEER) committee released an 80-page report entitled "The Privatization Potential of Mississippi's State Programs and Services." The PEER committee was formed under legislative oversight, and its report "identifies potential candidates for privatization." The report includes a "potential candidate pool" for privatization that encompasses 89 state programs, representing over $630 million in state expenditures.

The report may not be the final word on privatization in Mississippi. An alternative approach is being developed within the state auditor's office.

California
The Governor's Office of Planning and Research is preparing a list of privatization opportunities and developing criteria to evaluate these opportunities. The office is also looking at asset sales, contracting out, and public-private partnerships. Last fall, the Office of Planning and Research finished a report detailing the legal and regulatory obstacles to privatization.

Though facing a critical budget deficit, it is unclear at this time the extent to which California is committed to a privatization program.

Reason Foundation

Information on this page was provided by John O'Leary and William Eggers of the Reason Foundation. For more information, contact the Reason Foundation, 3415 South Sepulveda Boulevard, Suite 400, Los Angeles, CA, 90034, phone 310/391-2245, fax 310/391-4395.
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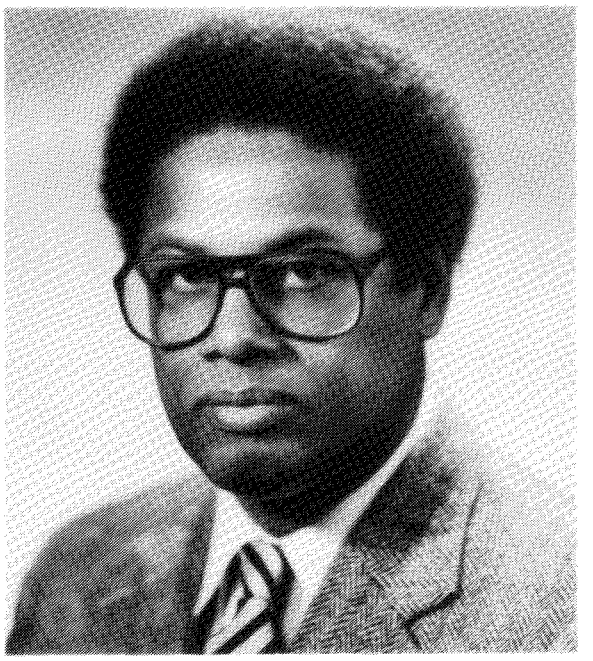
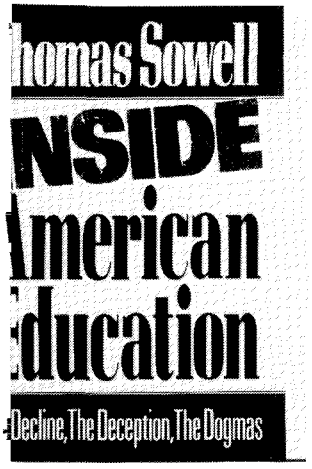
INSIDE AMERICAN EDUCATION
The Decline, The Deception, The Dogma

by Thomas Sowell



"Virtually everyone has heard how poorly American students perform, whether compared to foreign students or to American students of a generation ago. What everyone may not know are the specifics of how bad the situation has become, how and why the public has been deceived, or the dogmas and hidden agendas behind it all"—Thomas Sowell

In his most recent book, Sowell attacks the education elite for what they truly are: tenured aristocrats who thumb their noses at taxpayers whose kids are dragooned into the government's so-called classrooms.



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Focus on:

TAXES

Crippling the Mail-Order Industry

A study released in October by the Pennsylvania-based WEFA Group found that the catalog industry, with sales of $48.8 billion, contributed $39.9 billion (0.6 percent) to 1991's gross domestic product. In 1991, the industry employed more than 250,000 people. The WEFA Group projected that total employment in the industry would grow 16.6 percent between 1991 and 1996.

But taxes could stifle this growth if states persuade Congress to pass legislation enabling them to make out-of-state firms collect a "use" tax — like a sales tax, but applied to transactions in which a buyer and seller reside in different states. The U.S. Supreme Court, in a 1967 decision, frustrated state tax collectors by ruling that, without congressional approval, they could not require out-of-state firms to collect the use tax when the firm's only presence ("nexus") in a state was the shipment of catalogs by common carrier or U.S mail.

Ever since, tax collectors have tried to find a way around the ruling. These efforts increased in intensity about 1986, and laws passed by 36 states broadened the nexus interpretation from a physical to an economic presence. The Supreme Court rejected these efforts in its May 1992 decision in *Quill Corp. v. North Dakota.* But the Court also said that "Congress is now free to decide whether, when, and to what extent the States may burden interstate mail-order concerns with a duty to collect use taxes."

Since 1986, most states have enacted use-tax statutes, enforcing them with varying degrees of intensity while awaiting clear direction from Congress.

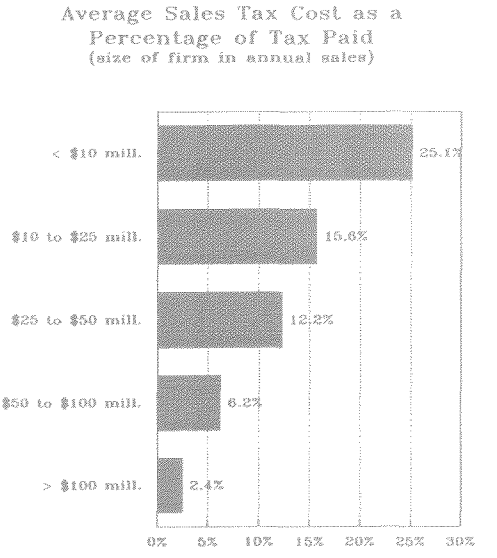
Everyone Suffers

Use taxes are a compliance nightmare for everyone — direct marketers, consumers, and states. That's why states want Congress to simplify their task by allowing them to force mail-order firms to collect the taxes.

According to a 1986 study by Touche Ross (now Deloitte & Touche), forcing mail-order firms to collect use taxes will raise the companies' operating costs by 10 to 20 percent. And the costs get more onerous for smaller firms, who would need to buy equipment and hire staff to comply with 46 different state tax laws. The costs of collecting use taxes by mail are projected to be six times greater than collecting sales taxes at the point of retail sale.

Consumer choice and jobs would suffer the most from a federal use-tax law. Mail-order firms increase purchasing choice and flexibility for rural and elderly consumers. And these firms often establish themselves in market niches, offering unique products that most local markets couldn't support.

Moreover, mail-order firms tend to locate in rural areas, providing a core economic base. Lands' End employs 3,700 people in Dodgeville, Wisconsin — more than the population of the entire town. L.L. Bean employs around 4,000 in Freeport, Maine.



A Pitiful Sum

The suffering caused by a federal use tax law may "enhance" state revenues — but only by a pittance. Indeed, some states would lose money, as the revenues would be more than offset by the costs of administering the tax. The Advisory Commission on Intergovernmental Relations — a study group that monitors taxation on federal, state, and local levels — estimated potential 1991 use-tax revenue at only $2.08 billion. (Total state revenues for 1991 equaled $661.4 billion and revenue from general sales taxes equaled $103.2 billion.) And even this estimate is too generous. When all the likely costs of the use tax are included in the estimate, one discovers only about $500 million in potential revenue.

TAX FOUNDATION

Information on this page was provided by William Ahern, director of public information at the Tax Foundation. For more information, contact the Tax Foundation, 1250 H Street NW, Suite 750, Washington, DC 20005-3908; phone 202/783-2760, fax 202/783-4687.

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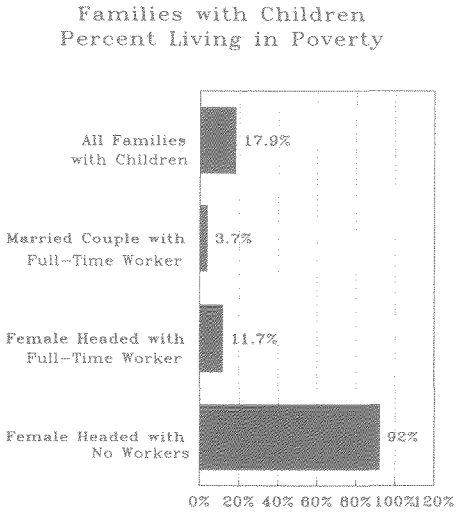
Focus on:

WELFARE

Workfare Reduces Dependency

Research on pilot projects in Ohio shows that rigorous workfare programs reduce welfare dependence. Welfare recipients were required to perform community service for at least 20 hours per week. The work requirement was continued as long as the individual received welfare benefits.



Roughly 25 percent of single mothers on Aid to Families with Dependent Children (AFDC) were required to perform community service in exchange for welfare benefits; the requirement resulted in an overall reduction in the AFDC single mother caseload of 11.3 percent. For every 100 AFDC single mothers placed in workfare, the AFDC rolls were reduced by 45 cases.

Similar reductions were seen in the Aid to Families with Dependent Children - Unemployed Parent Program (AFDC-UP), which provides welfare to two-parent families. Eighty percent of AFDC-UP fathers were required to participate in workfare, resulting in a 34 percent reduction in the AFDC-UP caseload. For every 100 AFDC-UP fathers required to work, the AFDC-UP rolls were reduced by 42 cases.

The Ohio workfare programs are the most successful dependency reduction programs so far evaluated. The effects on both AFDC and AFDC-UP caseloads are far greater than the effects reported for conventional job search and training programs elsewhere in the country.

Bradley R. Schiller and C. Nelson Brasher, "Effects of Workfare Saturation on AFDC Caseloads," forthcoming article in *Contemporary Policy Issues*, January or April 1993.

Welfare Dependence Reduces High School Graduation Rate

Young women raised in families dependent on welfare are less likely to graduate from high school than are young women of similar socioeconomic backgrounds not raised on welfare. Hispanic women raised on welfare were two times less likely to graduate; blacks were 1.5 times less likely; and whites 1.2 times less likely.

R. Forste and M. Tienda, "Race and Ethnic Variation in the Schooling Consequences of Female Adolescent Sexual Activity," *Social Science Quarterly*, March 1992.

AFDC Reduces Male Employment

High AFDC benefits reduce the employment of young adult men in a community to some 50 percent. Even though few men are direct beneficiaries of AFDC, high benefit levels apparently affect the work behavior of young men in two ways. First, high benefits reduce the probability of marriage and thus reduce the necessity for a young man to support a family. Second, it is likely that many young men who are boyfriends to single mothers on AFDC indirectly share in her benefits; higher benefits thus reduce the boyfriend's need for work.

M. Anne Hill and June O'Neill, *Underclass Behaviors in the United States: Measurement and Analysis of Determinants*, forthcoming paper, research funded by Grant No. 88ASPE201A, U.S. Department of Health and Human Services.

Crime as Alternative to Work

A study of black inner-city youth finds that some black male teens perceive crime as a viable alternative to employment as a source of income. Teens who frequently engage in criminal activities are one-third less likely to be employed. The higher an individual's "earnings" from crime, the less likely he is to seek lawful employment. And the greater the opportunities an individual perceives to make money illegally, the lower the probability that an individual will become lawfully employed.

Richard B. Freeman, "The Relation of Criminal Activity to Black Youth Employment," *Review of Black Political Economy*, Summer/Fall 1987.

Information on this page was provided by Robert Rector, policy analyst for social, welfare, and family issues at The Heritage Foundation. For more information, contact The Heritage Foundation, 214 Massachusetts Avenue NE, Washington, DC 20002, phone 202/546-4400, fax 202/544-2260.

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RESEARCH REPORT

Summaries of Research on State and Local Public Policy

See pages 29-31 for the addresses and telephone numbers of the publishers of research cited here.

CIVIL RIGHTS

African-Americans Must Prepare to Be Competitive. African-Americans "can dominate any area of American society, but we cannot do it unless we elevate our consciousness to one of competition, not to one of waiting for our status to be changed when someone else's attitude towards us changes." *Facts:* African-Americans earn $300 billion a year — equal to the GNP of Canada or Australia. But African-Americans spend nearly 95 percent of their money outside the African-American community. Tony Brown, "The Changing Face of African-American Politics," *The Heritage Lectures 407*, 1992, The Heritage Foundation.

Taxicab Regulations Keep Blacks Unemployed. The entrepreneurial spirit of four black cab drivers was vanquished in Denver recently when their company was denied approval to operate cabs in the city. The National Center for Public Policy Research reports: "The denial should not have come as a surprise, however. *Every new application for an operating license submitted to the Colorado Public Utilities Company or other government authorities since 1947 has been rejected."* In fact, since 1947 Colorado has permitted only three cab companies to serve residents of Denver. The Washington-based Institute for Justice has filed suit on the cabbies' behalf. For more information, contact The National Center for Public Policy Research.

Prevailing Wage Laws a "Racist Stain" on America. The federal Davis-Bacon Act was enacted by racists, and it continues to severely limit employment opportunities for black workers. State prevailing wage laws modeled after Davis-Bacon are no better. *Ironic:* The NAACP actually supports such laws . . . because of its close ties to organized labor, which prevailing wage laws protect. David Bernstein, "The Davis-Bacon Act: Let's Bring Jim Crow to an End," *Briefing Papers No. 17*, January 18, 1993, Cato Institute.

ECONOMY

Lessons from the Bush Administration. Less government intervention is needed to strengthen the U.S. economy. *Key:* (1) Government spending should be cut, leaving more resources in productive private-sector hands. (2) Taxes should be cut, to increase employment, savings, and investment. (3) Regulations should be lifted, to give people greater freedom to put their labor, capital, and land to productive uses. Roy E. Cordato and Michael A. Schulyer, "Bush Says He's Learned From His Mistakes, Clinton Promises to Repeat Them," *Economic Policy Bulletin No. 58*, October 23, 1992, Institute for Research on the Economics of Taxation, 1331 Pennsylvania Avenue NW #515, Washington, DC 20004-1774; phone 202/347-9570.

Government Barriers to Economic Growth Identified. Government in the U.S. represents more than *40 percent* of gross national product; reducing the size of government would pave the way for economic growth. *Key reforms:* balanced budget/tax limitation amendment; spending freeze; flat-rate income tax; incentives to encourage saving; elimination of the capital gains tax and reduction of payroll taxes; elimination of unnecessary and burdensome regulation. Michele Davis and Arthur Hall, *Reclaiming the American Dream: A Citizen's Guide to Removing Government Barriers to Economic Growth*, 1992, Citizens for a Sound Economy Foundation.

What's Wrong with the U.S. Economy? According to economist Morgan O. Reynolds, "Only governmental errors are big enough to throw an economy the size of the United States' off course and keep it staggering for an extended period." *Capitalism key to economic growth:* more capital investment, more skilled workers, more rapid technological progress, more entrepreneurship, and more effective coordination to direct labor and capital into their most valuable uses. Morgan O. Reynolds, "Remarks Prepared for the Joint Economic Committee of Congress," September 4, 1992, available from the National Center for Policy Analysis.

What Causes Income Inequality in America? The age, schooling, and work experience of the head of a family are principal factors explaining income inequality. "Investments that workers make in themselves — through formal schooling, skill training, and work experience on the job — pay higher rewards than at any time in our recent experience." To address income inequality, public policy should encourage workers to make such investments in themselves. Marvin H. Kosters, "The Rise in Income Inequality," *The American Enterprise*, Winter 1993, The American Enterprise Institute.

EDUCATION

Choice in Education. From "Religion, Education, and the Supreme Court" to "Educational Choice - An Innovative Approach," thirteen articles address educational choice and its potential impact on religiously affiliated schools. *Foundations of Liberty*, 1992, East Moline Christian School, 900 46th Avenue, East Moline, IL 61244; phone 309/796-1485.

How Asian and U.S. Students Compare. It is common knowledge that

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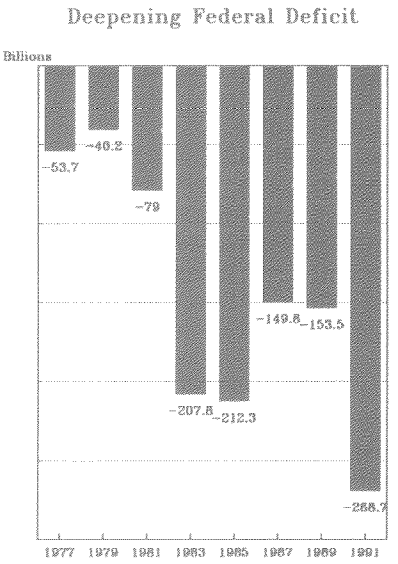
Asian schoolchildren perform better on achievement tests than do American children. *But did you know:* American mothers place less emphasis on student achievement than do Asian mothers; only 4 percent of Chinese mothers, but 20 percent of American mothers, said their children encountered problems in getting along with other children. Harold W. Stevenson, "Learning from Asian Schools," *Network News & Views*, January 1993. Contact the Educational Excellence Network, Herman Kahn Center, P.O. Box 26-919, Indianapolis, IN 46226; phone 317/545-1000.

Clearing the Air on School Choice. Four steps must be taken before choice will "snowball" across the country. *One:* blow away the smoke of choice opponents, who have no strong arguments against choice itself and thus can only defend the indefensible *status quo*. *Two:* clearly articulate the virtues of choice. *Three:* forge networks among the many constituencies for choice. *Four:* identify political leaders with the interest and ability to get the job done. Quentin L. Quade, "Smoke Screens," *Wisconsin Interest*, Summer/Fall 1992, The Wisconsin Policy Research Institute.

Teacher Strikes Update. Several hundred University of California graduate teaching assistants and researchers have gone on strike to protest the university's refusal to recognize their union, the Association of Graduate Student Employees/UAW. Elsewhere in the state, leaders of the 32,000-member United Teachers of Los Angeles voted to go on strike in mid-February to protest the school district's proposed 12 percent pay cut. *Nationwide*: 37 strikes in 10 states had idled over 21,700 teachers by December 1992, affecting over 300,000 students. "Teacher Strikes," *The Government Union Critique*, December 11, 1992 and December 25, 1992. Contact the Public Service Research Foundation, 1761 Business Center Drive #230, Reston, VA 22090; phone 703/438-3966.

Head Start a P.R. Success, Little More. Head Start proponents claim that early intervention can improve student achievement, prevent delinquency, and break the welfare dependency cycle. Policy makers are advised to look behind this sales pitch to the facts. Developmental psychologists and education experts, many of whom once viewed early intervention as a panacea, are being "dragged into the opposite camp by their data." John Hood, "Caveat Emptor: The Head Start Scam," *Policy Analysis No. 187*, December 18, 1992, Cato Institute.



Source: Economic Report of the President, 1992.

Carnegie Report on School Choice Irrelevant. Raymond Domanico, director of the Manhattan Institute's Center for Educational Innovation, reports "The Carnegie Report offers no new evidence that would cause us to alter our program. We have proceeded with a clear vision of what we hope to accomplish, and we get tangible evidence of our progress on a daily basis. School choice has been a powerful catalyst for change in communities where it has been fully embraced." Raymond Domanico, "Putting the Carnegie Report on School Choice in Perspective," *Network News & Views*, January 1993. Contact the Educational Excellence Network, Herman Kahn Center, P.O. Box 26-919, Indianapolis, IN 46226; phone 317/545-1000.

Good Grades Fashionable. A Maryland-based clothing chain, Merry-Go-Round, is offering discounts to good students. Under its "Grades for Fashion" program, students with a C average receive a 10 percent discount; B students, a 20 percent discount; and A students, a 30 percent discount. For further information, contact Laura H. Stein, 3300 Fashion Way, Joppa, MD 21085; phone 410/538-1000. "Businesses Offer Incentives for Academic Achievement," *Business/Education INSIDER*, November 1992, The Heritage Foundation.

Private Vouchers Aimed at Politicians. As state legislatures continue to balk at adopting school choice programs, the private sector has taken charge. Programs funded by corporations and think tanks are operating in Little Rock, Atlanta, San Antonio, Milwaukee, and Indianapolis. Their efforts are political as much as charitable: "Supporters of the privately funded school choice programs say their efforts will make the issue more difficult for lawmakers to ignore." Evan Gahr, "Vouching for Choice," *Insight*, November 2, 1992.

Education Reform Takes Center Stage. Among the articles appearing in the February 1993 issue of *The Freeman*, devoted to education: "The Failure of American Public Education," by John Hood; "Education for One's Own Sake," by Leonard E. Read; and "Education in America," by Susan Alder. *The Freeman*, February 1993, The Foundation for Economic Education.

Choice Programs Can Pay for Themselves. An educational choice program can break even or save money, because the cost of scholarships to students currently attending private schools can be offset by savings from students who switch from public to private schools. *Break-even requires:* a small number of students currently attending private schools; public school funding tied to public school enrollment; parents whose interest in private education is price-sensitive; a healthy supply of low-cost private schools. Tara Ellman, "Choice on the Cheap: Designing a Private School Choice Plan that Can Pay for Itself," *Arizona Issue Analysis*, November 1992, Barry Goldwater Institute for Public Policy Research.

The Necessity of Values Education. During the 1990-91 school year, the

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Jefferson Center for Character Education and the Los Angeles Unified School District pilot-tested the Jefferson Center's values education curriculum in 25 elementary and middle schools. An independent evaluation of the program found a drop in discipline and behavior problems and an increase in students' willingness to take responsibility. Teachers reported that the program "gave them a vocabulary they could use to talk with students in the wake of last spring's riots." B. David Brooks and Mark E. Kann, "Value-Added Education," *The American School Board Journal*, December 1992, reprinted in *Network News & Views*, January 1993. Contact the Educational Excellence Network, Herman Kahn Center, P.O. Box 26-919, Indianapolis, IN 46226; phone 317/545-1000.

The Future of Educational Choice. What if a scholar writing in the year 2000 were to make his subject parental choice of schools? "Your colleagues will wonder along with you as you examine this strange era when we granted government monopolies control of the most valuable and important enterprises in town, and so many people fought furiously to keep doors to many of the best schools closed to poor children. Your colleagues will ask, how could this have ever happened in America, at a time when the ideas of freedom, choice, and opportunity were sweeping the rest of the world?" Lamar Alexander, *A "GI Bill" for Children*, Excellence in Education Series, 1992. Contact the John M. Ashbrook Center for Public Affairs, Ashland University, Ashland, OH 44805; phone 419/289-5411.

ENVIRONMENT

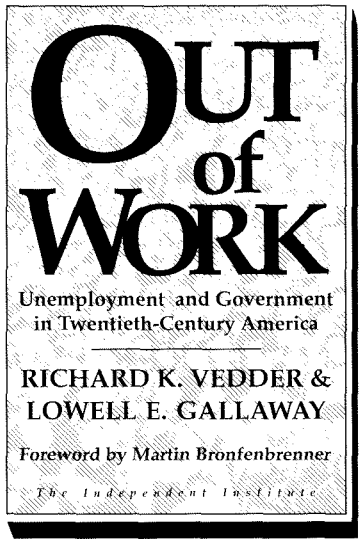
Human Life Has Value. You probably remember "I'm mad as hell and I'm not going to take it anymore" from the movie *Network*. But most Americans appear to have forgotten the lines that preceded it: *I'm a human being, damn it. My life has value.* "At a time when snails are more important than people and their civil rights, including the right to own and use property; at a time when birds and fish and plants are more important than the ability of men and women to earn a living, to support their families, to build their communities, to live with dignity and self respect, I hope you are as mad as hell and you're not going to take it anymore. I hope you plan to do something about it." William Perry Pendley, "Whither the West: A Call to Action," *The Heritage Lectures No. 417*, 1992, The Heritage Foundation.

Carbon Dioxide Contributes Little to "Greenhouse Effect." Over the last 100 years, the level of carbon dioxide in the air has increased by 25 percent; the greenhouse effect has increased by 1 percent. If the concentration of carbon dioxide in the air were to double, the "greenhouse effect" would rise by only 3 percent. Public policy aimed at carbon dioxide and developed out of a "crisis mentality" will impose great costs with very little benefit. Jocelyn Tomkin, "Hot Air," *Reason*, March 1993, Reason Foundation.

U.S. Not "Cheap" on Environment. The U.S. spent more than 2 percent of its GNP on environmental cleanup in 1991 — more than any other country, and roughly 40 percent as much as was spent on defense that year. "Good environmental policy should identify which environmental risks matter most and should direct resources toward reducing these risks. All too often the policy and legislative process has resulted in regulations that are unnecessarily burdensome in relation to the benefits achieved," impeding economic growth. Karl A. Scheld, "Alternative approaches to meeting economic and environmental challenges," *Chicago Fed Letter*, November 1992, The Federal Reserve Bank of Chicago, P.O. Box 834, Chicago, IL 60690; phone 312/322-5111.

Whose Rights are Inalienable and Absolute? Not ours! The Endangered Species Act has given "members of officially designated species an array of absolute and inalienable rights that would be the envy of advocates for the rights of the homeless, the disabled, or any other group needing help that consists of mere humans." Over 1,100 species are on the Endangered Species List; thousands more are on a waiting

UNEMPLOYMENT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list. Brian F. Mannix, "The Origin of Endangered Species and the Descent of Man," *The American Enterprise*, Winter 1993, The American Enterprise Institute.

"Sustainable Development" Will Hurt Environment. Proponents of "sustainable development" fear that current economic growth trends are too damaging to the environment, and unsustainable given worldwide supplies of natural resources. But their proposed solution — international central planning of economic activity by government agencies — will hurt the environment even more by impoverishing nations. Thomas J. DiLorenzo, "The Mirage of Sustainable Development," *Contemporary Issues Series 56*, January 1993, Center for the Study of American Business.

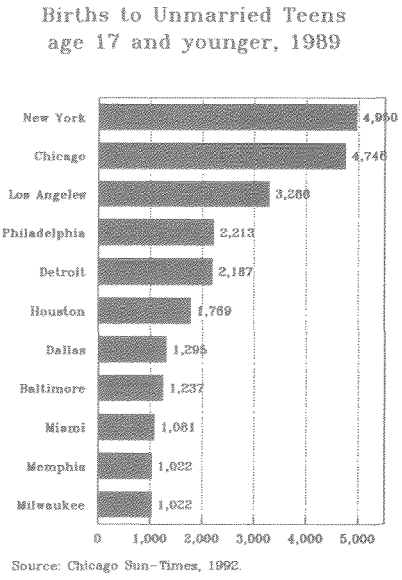
FAMILY

Parents Preferred Bush. The Clinton-Gore ticket — the country's first "baby-boomer" ticket — failed to win even a plurality of the baby boomer vote. The age groups with whom the Clinton-Gore ticket fared best — older Americans and voters aged 18 to 24 — are the age groups least likely to include parents with children at home. In regression analysis conducted by the Wirthlin Group, none of the standard demographic variables — gender, income, ethnicity, religion, age, marital status, or education — was as reliable in predicting whether or not someone voted for Clinton as the absence or presence of children in the home. "The Silent Minority: The Hidden Electoral Impact of Children," *Family Policy*, December 1992/January 1993, Family Research Council.

GOVERNMENT

Government a Growth Industry. Employment by government is not subject to the same economic ups-and-downs as employment in the private sector. The number of government employees increased *every year* between 1948 and 1980, by an average of over 300,000 per year. The absolute number of government employees fell slightly in 1981 and 1982, but has been increasingly steadily since. Government employees now make up more than 15 percent of the civilian labor force and nearly 10 percent of the working-age population. "I'm From the Government and I'm Here to Help You," *Research Reports*, February 1, 1993, American Institute for Economic Research, Great Barrington, MA 01230.

Advice for Congress from U.S. Governors. A survey of 118 governors and former governors —including Bill Clinton, Jimmy Carter, Michael Dukakis, and Ronald Reagan — reveals: 92 percent of the governors support a line-item veto; nearly 90 percent believe that the federal government should reimburse state governments for the costs of federal mandates; 55 percent believe Congress has too much authority over the federal budget. Stephen Moore, "How Governors Think Congress Should Reform the Budget," *Policy Analysis #186*, December 9, 1992, Cato Institute.



Source: Chicago Sun-Times, 1992.

States Need Economic Growth, not Federal Money. "Rather than focusing on how much money the federal government sends to states and localities, our elected officials in Washington would do well to institute a vigorous national economic growth plan that provides tax relief and enhanced incentives for working, investing, saving, and risk-taking." *Elements of a plan:* flat-rate federal income tax, elimination of the capital gains tax, elimination of taxes on interest earned on savings, and a federal government spending freeze. Raymond J. Keating, "What Do States and Cities Need from a New Administration and Congress? A Blueprint for Real Economic Growth," *Economic Perspective*, February 3, 1993, Citizens for a Sound Economy Foundation.

The Dangers of Public-Private "Cooperation." Proponents of "reinventing government," an old (and bad) idea recently popularized by a book of the same name, "want the public and private sectors to be more 'cooperative' with each other. That is, government should fund more special interests. But when public money pours into the private economy, it has a discoordinating effect, sustaining businesses that should shut down, and generating unfair competition against those who stand on their own feet." Llewellyn H. Rockwell, Jr., "Reinventing Statism," *The Free Market*, January 1993. Contact the Ludwig von Mises Institute, Auburn, AL 36849-5301; phone 205/844-2500.

HEALTH

Vouchers for Health Care Proposed. Medicaid costs are spiraling out of control primarily because Medicaid recipients have no reason to exercise restraint. Vouchers could give current Medicaid recipients, as well as many of the working poor currently ineligible for Medicaid, incentives to consume health care services more wisely. Barry W. Poulson, "Health Vouchers Could Cure the Medicaid Crisis," *Independence Issue Paper*, January 13, 1993, Independence Institute.

Health Care Deregulation Must Begin in the States. If state governments are serious about reforming health care, they should begin with deregulating the health care marketplace in their states. *Free the marketplace by eliminating:* Mandated benefits laws, hospital certificate-of-need (CON) programs, restrictions on PPOs and utilization review boards,

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and occupational licensing laws that restrict alternative health care practitioners. "States Need to Deregulate Health Care," *Policy Insights*, January 1993, Free Congress Foundation.

AIDS to Increase State Medicaid Bills. New Social Security Administration regulations will make it easier for HIV patients to qualify for disability, supplemental security income, and Medicaid benefits. *Cause for concern:* Many states are under pressure to reduce their Medicaid budgets. As the budgets are shrinking, the eligibility of AIDS patients is growing, and in some states the high numbers of AIDS cases could crowd-out other persons eligible for Medicaid benefits. Christina E. Hassan, "Redefining AIDS: Its Impact on Health and Disability Entitlement Spending," November 30, 1992. Contact the House Budget Committee Republican Staff, 278 Ford House Office Building, Washington, DC 20515; phone 202/226-7270.

Health Care Reform Proposals Summarized. In 1992 alone Congress considered more than 100 bills on health care reform; the Bush administration released a 94-page "outline" of a health care plan; and Bill Clinton has ideas of his own. *Under discussion:* single-payer systems, play or pay, insurance regulation, managed competition, tax incentives, and medical IRAs. Michael Tanner, "Health Care Reform: The Good, the Bad, and the Ugly," *Policy Analysis* No. 184, November 24, 1992, Cato Institute.

Federal Tax Law Impedes Health Care Reform. Over 10 million people are uninsured in the U.S. because neither they nor their employers can afford health insurance. Allowing individuals who purchase health insurance to deduct the expense from their federal income taxes would go a long way toward making health insurance affordable to these uninsured. *Also a good idea:* Deferring taxation of monies placed in a Medical Savings Account (like an IRA), which could be used to cover deductibles and would act as a "nest egg" for future medical bills. Victoria C. Craig, "Federal Tax Policy: Its Effect on Health Care Costs, Coverage, and the Uninsured," Octo-

States' Rights

Stop Washington's Power Grab

By Robert N. Baird

CLEVELAND, OHIO — The U.S. Constitution provides that powers not given to the federal government nor denied to state governments belong solely to the states. Indeed, the exercise of power by the federal government was intended by the founding fathers to be strictly limited.

Our earliest congressmen did not go to Washington to see what pork they could extract for their constituents from the national coffers. Those coffers were too small, because the primary sources of government revenue were customs duties and tariffs. The role of the congressman was to provide regional input into the formulation of national policy.

In the current century, these founding principles were scrapped. Two World Wars and a Great Depression sent massive new powers to Washington, and a constitutional amendment to permit a federal income tax gave resources to fund those powers. Congress thus acquired the ability to intervene more frequently and powerfully in the affairs of the states.

In addition to debating such topics as the gold standard, creation of the Federal Reserve, or the establishment of a mutual defense treaty with Europe, congressmen found ways to transfer federal tax receipts back to their home districts. The strategic distribution of those receipts meant more votes in the next election.

This power grab by Washington has features similar to those of urban riots. Each individual looter may realize his act is wrong, but he feels he may as well take his share before the shelves are empty. Congressmen behave the same way. And while a store owner will think long and hard before restocking after being looted, deficit spending means Congress' looting can continue indefinitely.

If the growth of the federal government is to be slowed, the states must demand a return of their rights. They must also demand a decrease in federal taxes. As it stands now, federal taxes are so high that many sound local projects are routinely defeated if they mean yet another dent in the taxpayers' pocketbook.

> States must demand a return of their rights from the federal government.

Our newspapers must cease to praise congressmen who bring home the bacon. The fact that so many members of Congress participate in such looting does not justify it.

We must find ways to return government to the states. Their closer proximity to voters and their constitutions requiring balanced budgets give us hope for responsibility in government spending.

# # #

Robert N. Baird is chairman of the Department of Economics at Case Western Reserve University and a policy advisor to The Heartland Institute.

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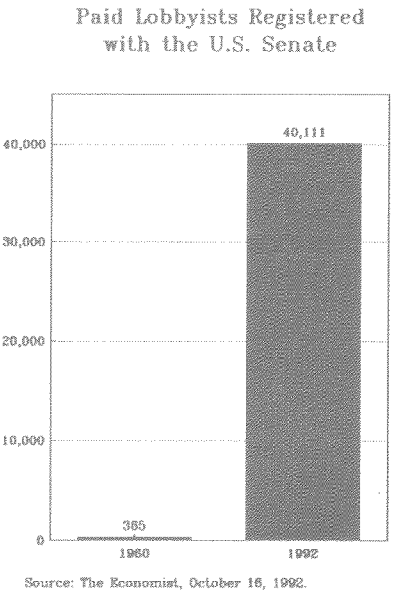
ber 1992. Contact the Council for Affordable Health Insurance, 1101 King Street #601, Alexandria, VA 22314; phone 703/838-9268.

What States Can Do. Reviews over 20 "good ideas" and a dozen "bad ideas" in the following categories: health insurance reform, insuring the uninsured, insuring the uninsurable, state regulation, meeting the needs of the poor and disadvantaged, controlling costs, and paying for reform. *Parting thought:* "If state legislators wish to enact humane and efficient health care reform, they must empower people to use their intelligence, creativity, and innovative ability to solve problems in freely competitive markets." John C. Goodman and Gerald L. Musgrave, "State Health Care Reform Under the Clinton Administration," *NCPA Policy Report No. 173*, November 1992, National Center for Policy Analysis.

State Government Responsible for NJ Hospital Crisis. Hospital bills in New Jersey are taxed at a rate of 19.7 percent to provide monies for the state's Health Care Trust Fund, which in turn reimburses hospitals for charity care and bills left unpaid by patients — regardless of the patients' own ability to pay. The Fund reimbursed hospitals for $800 million in unpaid patients' bills in 1990 alone. *Solution:* eliminate the Health Care Trust Fund, encourage hospitals to pursue deadbeat patients more aggressively, and allow hospitals to increase prices if needed to make up for uncompensated care. Michele Davis, "New Jersey's Health Care System Needs Comprehensive Reform, Not New Taxes," *Economic Perspective*, October 13, 1992, New Jersey Citizens for a Sound Economy Foundation.

States as Public Policy Laboratories. Reviews widely varying proposals for health care reform adopted in Iowa, Oregon, Vermont, Virginia, and Kentucky. Concludes "the practice of providing the best possible care without regard to cost will likely give way to a more cost effective approach to health care provision. It is also likely that individual consumers of health care services will have to bear a greater share of the cost of consuming health care." Richard H. Mattoon, "Can the states solve the health care crisis?" *Economic Perspectives*, November/December 1992. Contact the Federal Reserve Bank of Chicago, Public Information Center, P.O. Box 834, Chicago, IL 60690-0834; phone 312/322-5111.



Source: The Economist, October 16, 1992.

HIGHER EDUCATION

Serving "the State" or Students? The University of California provides a handbook to all new faculty members. Among the "inspiring" declarations therein: *"The University of California is the creature of the State, and its loyalty to the State will never waver."* The statement apparently was meant to refer to "society" rather than the political institution of the State, but the inaccurate use of the language may have become a self-fulfilling prophecy. Stephen Cox, "Assumptions of Power," *Reason*, March 1993, Reason Foundation.

Federal Government Plans Student Loan Takeover. The federal government is about to take control of the Guaranteed Student Loan program (Stafford Loans), currently private loans that are guaranteed by the government but administered by local commercial banks. The "strings" attached to such government-controlled higher education funds make them dangerous for independent private colleges. Hillsdale College in Michigan, for example, has an endowment effort underway to replace the funds it will lose once the feds "nationalize" the Stafford Loan program. George Roche, "Hillsdale College vs. the Federal Bureaucrats — Again," *Imprimis*, December 1992, Hillsdale College.

LAW

Guns Used to Prevent Crimes. The gun control debate has been dominated by widely believed myths — thirteen of which are exploded in this report. *Myth #3:* Guns are of little help in defending against criminals. *Facts:* Every year, potential victims kill between 2,000 and 3,000 criminals, and they wound an additional 9,000 to 17,000. Private citizens mistakenly kill innocent people only 30 times a year — compared with about 330 mistaken killings by police. Morgan O. Reynolds and W.W. Caruth III, "Myths About Gun Control," *NCPA Policy Report No. 176*, December 1992, Center for Texas Studies, National Center for Policy Analysis.

Property "Taking" in Wisconsin Challenged. The Center for Individual Rights will represent property owners in a lawsuit against the Wisconsin Department of Natural Resources and local government agencies. By designating a homeowner's 100 acres as "environmentally sensitive," the Waukesha Town Board reduced the value of the owners' property from $2.3 million to less than $150,000. *Insult to injury:* the Town Board denied the owners permission to rebuild their own home, which had been partially destroyed by lightning. "Open Space: The Final Frontier," *Docket Report*, Third Quarter 1992, Center for Individual Rights.

New York City a Lawsuit Magnet. Tort reform is essential in New York City, where lawsuits against the government have become a growth industry. *Facts:* New York City spends more on personal injury claims than it does on parks and libraries combined. Even if no one filed another claim, the exist-

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ing backlog of cases would cost City taxpayers *$2.1 billion*. Walter K. Olson, "Sue City: New York's Stake in Lawsuit Reform," *City Journal*, Winter 1993, Manhattan Institute.

Government Taking of Private Property Increasing. In *Grand Theft and Petit Larceny: Property Rights in America*, land use attorney Mark L. Pollot looks at how government is taking property at an alarming rate and paying no compensation to owners. He describes property rights as "the forgotten civil right" and offers "A Strategy to Restore Property Rights." $21.95 hard cover from the Pacific Research Institute for Public Policy.

Torts in Texas Costly. Texas is perceived as one of the most litigious states in the country, an image enhanced by a number of high-visibility lawsuits resulting in huge damage awards. The direct and indirect costs of the "tort tax" in Texas total $25 billion a year — roughly 5.5 percent of Texas' gross state product. Bernard L. Weinstein, "The Texas Tort Tax," October 1992, Texas Public Policy Foundation.

PRIVATIZATION

Time for Privatization in New York. "To survive and thrive, New York needs 'perestroika.' A restructuring of government in New York should begin with the same basic premise that drove the vision in the former Soviet Union and in the newly freed nations of Central and Eastern Europe. We must rethink and redraw the boundary line between government and the rest of society, between the public and private sectors. . . . Privatization is the key to enable New York to better utilize its private sector." E.S. Savas, "It's Time to Privatize," *Fordham Urban Law Journal* Vol. XIX (1992). Available from E.S. Savas, Department of Management, School of Business and Public Administration, City University of New York, Baruch College, 17 Lexington Avenue, New York, NY 10010; phone 212/447-3550.

EPA Encourages Waste-Water Privatization. The Environmental Protection Agency has proposed regulatory changes to encourage private ownership of public waste-water treatment systems. Most of the proposed changes would cut some of the strings attached to federal funding of such facilities, making public-private ventures and outright privatization of facilities feasible. "EPA Encourages Privatization of POTWs," *Finance Alert*, Fall 1992. Contact the Energy and Project Finance Group of Nixon, Hargrave, Devans & Doyle, One Thomas Circle #800, Washington, DC 20005; phone 202/457-5300.

Worldwide Privatization Efforts. In *Argentina*, a group of 22 banks bought a 70 percent interest in the nation's southern natural gas pipeline company. The government will retain the remaining 30 percent, a

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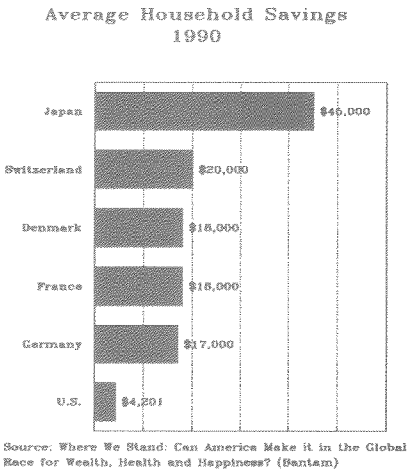
portion of which will be sold to pipeline employees. In *Hungary*, 35 percent of the nation's Malev airline will be sold to Alitalia of Italy; the government will retain 51 percent of Malev's stock and will allow airline employees to purchase the remaining 14 percent. *The Government Union Critique*, January 15, 1993. Contact the Public Service Research Foundation, 1761 Business Center Drive #230, Reston, VA 22090; phone 703/438-3966.

New Privatization Report Unveiled. The Mackinac Center for Public Policy has launched the *Michigan Privatization Report*, aimed at Michigan local and state government officials. The first issue highlights the "Privatization in Michigan" report released in August 1992 by the Michigan Department of Management and Budget; reports the likelihood of privatization of the state's Accident Fund; and reviews the privatization success story of Ecorse, Michigan. *Michigan Privatization Report*, January 1993, The Mackinac Center for Public Policy.



Source: Where We Stand: Can America Make it in the Global Race for Wealth, Health and Happiness? (Bantam)

Taking Control of Government Spending. Competitive contracting of public services to the private sector can get governments off the treadmill of annual spending increases. While tax increases are an unnecessary and *risky* response to state fiscal dilemmas, competitive contracting has a proven track record of success. Wendell Cox and Jean Love, "Competitive Contracting: Taking Control of Government Spending," *Fiscal Insight #4*, December 1992, Cascade Policy Institute.

Robert Poole Jr. Wins Freedom Torch Award. The International Society for Individual Liberty has awarded its 1992 *Freedom Torch Award* to Robert W. Poole, Jr., president of the Reason Foundation and publisher of *Reason* magazine. Poole received the award as "unquestionably *the* leading pioneer in the privatization revolution that is now sweeping the world." The award has been presented since 1986 to recognize "truly epic contributions to the cause of liberty." Congratulations, Bob!

Benefits of Highway Privatization. Whether driven by desperation and expediency, or by a "growing appreciation for the superior equity and efficiency potential of privately financed and operated roadways," privatization of highway infrastructure is a growing trend. While privatization efforts currently focus on new highways, it won't be long before privatization of currently public highways attracts as much attention. John Semmens, "Highway Privatization: What are the Benefits for Arizona?" *Arizona Issue Analysis*, December 1992, Barry Goldwater Institute.

Getting Government Out of Golf. Municipal governments are discovering that they are not particularly skilled at golf course management; many are turning to the private sector to turn money-losing courses into revenue-generators. Private managers now operate municipal courses in Detroit, New York, and Houston; privatization is under consideration in Pembroke Pines, Indianapolis, and Corpus Christi. "Municipalities Looking to Private Firms for Management of Public Golf Courses," *Privatization Watch*, December 1992, Reason Foundation.

REGULATION

Zoning Impedes Renewal in New York City. The Big Apple's 1961 zoning ordinance, intended not only to prevent specific harms but also to secure specific benefits, has failed mis-

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erably. *Needed:* a new zoning ordinance that trusts the market; keeps regulation simple, flexible, and predictable; and is applied consistently. Peter D. Salins, "Simple Rules for a Complex Society: Redesigning New York's Zoning," *City Journal*, Winter 1993, Manhattan Institute.

How Heavy is the Regulatory Burden? Several attempts have been made to quantify the overall cost of regulation. In constant 1988 dollars, estimates have ranged from: $137 billion (Center for the Study of American Business); $67 - $177 billion (Yale University); $123 - $154 billion (American Enterprise Institute); $395 - $510 billion (Rochester Institute of Technology). The Rochester estimate works out to $4,100 to $5,000 per U.S. household. Melinda Warren, *Government Regulation and American Business*, December 1992, Center for the Study of American Business.

Workers' Compensation Costs Compared. Actuarial & Technical Solutions, Inc., has released a state-by-state comparison of workers' compensation costs in the United States. The report finds an average national cost of workers' compensation of $1,500 per manufacturing-sector employee. There is wide disparity among states, however: manufacturers in the northeast pay $3,000 more per employee than firms in Atlantic states. *State Rankings of Workers Compensation Insurance Rates and Average Benefit Provisions for the Manufacturing Industry*, September 1992. Contact Actuarial & Technical Solutions, Inc., 630 Johnson Avenue #104, Bohemia, NY 11716; phone 516/589-8791.

Banking Industry Hurt by Over-Regulation. The banking industry is one of the most heavily regulated industries in the United States, both at the state and federal levels. Regulation is placing banks at a competitive disadvantage vis-a-vis other financial institutions. Among the most onerous threats to the industry's long-term viability: *federal deposit guarantees* and a government-imposed *social responsibility agenda*. Genie D. Short and Kenneth J. Robinson, "Banking Conditions and Legislation," *Finan-*

Health Care

"Guaranteed Issue" is a Guaranteed Mistake

By Lee Tooman and Brian McManus

INDIANAPOLIS, INDIANA — "Guaranteed Issue" has become the buzzword of choice for those wanting to reform the health insurance market for small groups.

Guaranteed issue is a pretty simple concept. Sign up for insurance and, if you can pay the premiums, you get the insurance — no medical questions asked, no medical underwriting, no pre-existing conditions problem. A person being wheeled into an emergency room would be permitted to buy health insurance right there on the spot.

Sounds like it would solve the problem of access, right? Unfortunately, access isn't the problem. *Cost* is the problem. And the only thing that's guaranteed with guaranteed issue is that it will raise the cost of health insurance.

Even the proponents of guaranteed issue admit that premiums would increase, perhaps by 8 or 10 percent. An actuary quoted in *Forbes* magazine predicts that rates might increase by as much as "35 percent in a few cases, and 15 percent to 20 percent increases would be common." Our own company experimented with guaranteed issue a few years ago and found that a *50 percent* increase in premiums was insufficient to cover the costs.

What's behind these premium increases? With guaranteed issue, the people we need in the insurance system the most — the young and the healthy — have no incentive to buy insurance. Why should they purchase insurance when they're healthy, so long as access to insurance when they're ill is guaranteed? The only persons left in the insurance pool will be the otherwise uninsurables — the AIDS or cancer patient, for example.

In 1991, Ohio legislators were getting ready to release the guaranteed issue monster on their state. Community Mutual (the Blue Cross affiliate based in Cincinnati) and Tillinghast (the largest actuarial consulting firm in the world) collaborated on a study of how much this "reform" would cost. The predicted results: 20 to 25 percent rate increases and an increase in the uninsured population. Small businesses in Ohio were spared this fate when the guaranteed issue proposal was dropped.

Guaranteed issue *was* implemented in Connecticut in May 1991. Insurance is available in Connecticut, but small businesses that couldn't afford health insurance before still can't afford it. The uninsured are still uninsured, and prices for health insurance in the state are higher than ever.

Reforms in health insurance *are* needed. But we should not extend insurance beyond its natural limits. The proponents of guaranteed issue are trying to redefine insurance by taking the risk out. But insurance *is* the business of risk selection. Risk, by definition, is the possibility of loss or injury. Insurers *seek* risk, not avoid it.

When someone is rushed into the emergency room and can buy insurance on the spot, there is no risk — no "possibility" of loss. There is only the *certainty* of loss. Certainty does not belong in the insurance company's dictionary. And guaranteed issue does not belong in a health care reform package.

# # #

Lee Tooman and Brian McManus are employed by Golden Rule Insurance Company as a product manager and a legislative analyst.

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cial Industry Issues, Third Quarter 1992, Federal Reserve Bank of Dallas, Station K, Dallas, TX, 75222; phone 214/922-5254 or 800/333-4460, ext. 5254.

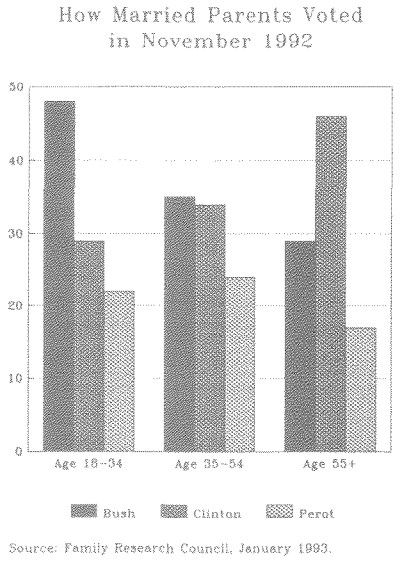
150,000 Person-Years Wasted. "Government regulations, often well meant but usually ill-conceived and erratically administered, have burdened American business to such an extent that our economic status in key global markets has been seriously impaired." Federal spending on regulation will cost an estimated $13 billion in 1992 and employ 122,400 regulators at the federal level alone. At least 150,000 person-*years* of effort are spent each year to comply with regulators' requests for information. Dr. Nancy Bord, "The U.S. Regulatory Regime and the Global Economy," *The Heritage Lectures No. 416*, 1992, The Heritage Foundation.

Regulations That Cause Death. The federal Office of Information and Regulatory Affairs attempted to stop a proposed OSHA regulation that would have prevented 8 to 13 deaths — at a cost of $12.5 to $20.4 million per death. The regulation also would have *caused* 22 deaths. Unfortunately, such systematic efforts to estimate the health and safety costs of proposed government regulations are rarely made, and when made they are rarely heeded. The OSHA regulation was allowed to go into effect. Lester B. Lave, "Risky Business: Thinking About the Benefits and Costs of Government Regulation," *The American Enterprise*, November/December 1992, The American Enterprise Institute.

Four Reasons Why Regulation Fails. (1) Government agencies rarely ask if the free market can achieve the desired public benefit more effectively or less expensively. (2) The sheer volume of regulations makes compliance impossible, and ensures that regulations often will contradict one another. (3) There is little or no relationship between the penalties for violation and the public interest they serve. (4) "Because of their arbitrary and damaging nature, regulations have undermined our system of law, and, indeed, have given rise to what I call regulatory terror." Edward Hudgins, "The Re-Regulation Explosion: Costs and Consequences," *The Heritage Lectures 442*, 1992, The Heritage Foundation.

TAXES

The average person spends three times more money per year on taxes than on food. William Ahern, 1992, Tax Foundation.



Source: Family Research Council, January 1993.

Voters Support Lower Taxes. Voters in at least five states imposed new limits on the taxing authority of state and local governments. In *Arizona*, 72 percent of voters approved a measure that would require a 2/3 vote of the legislature for state tax increases. In *California*, 67 percent voted to repeal a new "junk food" tax. In *Colorado*, 55 percent rejected a proposal to raise the sales tax to fund education. In *Florida*, 53 percent of voters approved a citizen initiative to limit property taxes. And in *South Dakota*, 75 percent of voters rejected a proposal to create a state income tax. *Wall Street Journal*, November 5, 1992. Cited in "Voters impose tax limits in other states," *Northwest Tax Watch Newsletter*, December 1992. Contact Northwest Tax Watch, 604 South Elm Street, Mount Prospect IL 60056.

New York Tax Burden Among the Highest. High taxes have dramatically slowed economic growth in New York. *By the numbers:* Per-capita individual state income taxes in New York are 103 percent over the national average; state and local income taxes per $1,000 of personal income are 92 percent over the national average; and per-capita property taxes are 64 percent higher than the national average. In 1992, New York taxpayers worked until June 10 — over half the year — just to earn enough money to pay taxes. Raymond J. Keating, "Testimony before the Joint Budget Hearings of the New York State Assembly Ways and Means Committee," February 2, 1993, New York Citizens for a Sound Economy, P.O. Box 596, Manorville, NY 11949; phone 516/874-8353.

Mail-Order Tax Hurts Consumers. Congress should reject states' lobbying efforts for permission to levy sales or use taxes on out-of-state mail-order firms. The states don't need additional tax revenue; in-state retail firms do not need "protection" from out-of-state mail-order firms; and consumers definitely don't need the extra tax burden. Raymond J. Keating, "Levying Sales Taxes on Out-of-State Mail-Order Firms: Congress Should Just Say No!" *Capitol Comment*, February 3, 1993, Citizens for a Sound Economy Foundation.

State and Local Taxes Compared. Noting that state and local taxes can have a significant impact on a family's economic well-being, this article reports the findings of a recent study of state and local taxes paid by typical families earning annual incomes of $15,000, $45,000, $60,000, and $90,000. *Findings:* Detroit, Philadelphia, and Milwaukee have the most onerous tax burdens across all income categories. Stephen E. Lile, "How Do the States Compare?" *Spectrum*, Fall 1992. Contact The Council of State Governments, Iron Works Pike, P.O. Box 11910, Lexington, KY 40578-1910; phone 606/231-1939.

The Rising Cost of Taxes. "During the 1980s, state taxes grew faster than personal income in 43 states. Only

(Continued on Page 26)

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Transportation

States Can't Wait for Transit Reform

By Anthony M. Pagano

CHICAGO, ILLINOIS — Mass transit in America is a real mess. Transit deficits have risen continuously since 1964, when the Federal government first got involved in subsidizing public transit systems. Costs and fares have risen substantially over this period.

Transit's market share also has declined. Information from the 1990 U.S. Census indicates transit's market share of the journey to work fell 17.2 percent since 1980. Transit's share of all travel fell from 2.4 percent of all "person-trips" in 1977 to 2.0 percent in 1990.

The Clinton administration can put customer-oriented, efficient delivery of transit services at the top of its transit agenda. Or it can continue to spend more and more on public transit monopolies.

Regardless of the approach the new administration takes, there are several policy options available to *state and local governments* wishing to promote efficient, customer-oriented transit systems.

Competitive Contracting: Requiring public transit agencies to contract some of their transit services to private operators can lead to big efficiency increases. These cities and others have learned that private provision of transit services can reduce costs and enhance service quality:

- Los Angeles contracted out bus service to private operators and witnessed a 60 percent reduction in the cost of providing the service. Service quality has risen.
- In Colorado, state legislation required Denver to contract out 20 percent of its transit service, resulting in a long-term savings of 31 percent.
- New York City's private bus operators have a 29 percent lower cost per unit of service, provide 10 percent more service per employee, and have 31 percent fewer employees per bus than the public sector.

Efficiency Incentives: For the private sector, inefficiency means lower profits and the prospect of going out of business. For public transit operators, it means raising fares, reducing service, and asking taxpayers for more money. Public transit operators should be required to develop efficiency measures, and they should be judged against standards they develop.

Entrepreneurship: Private bus operators should be permitted to recommend and operate new bus routes with little or no subsidy from government. A similar program already works in California, where private firms may recommend toll road projects. If the project wins the approval of CALTRANS, and if the private firm can obtain financing, the firm can construct and operate the road. Four projects are under development.

State and local governments need not — indeed, should not — wait for the Federal government to address local transit problems. Governments at the state and local level have at their disposal a variety of tools that can make transit more efficient and more responsive to consumer needs.

# # #

Anthony M. Pagano is Executive Director of the Metropolitan Transportation Association, an association of private transit providers in the Chicago area. He is also an Associate Professor of Management at the University of Illinois at Chicago.

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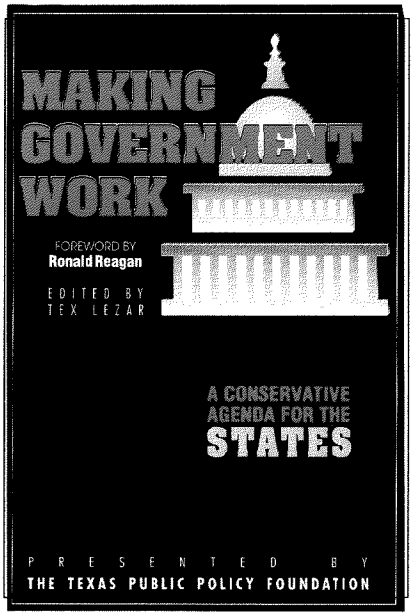

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Alabama, Alaska, Mississippi, New Hampshire, New Mexico, Pennsylvania, and South Dakota didn't increase the government's share of its residents' income." *Wall Street Journal*, December 4, 1992, quoted in *Dollars & Sense*, February 1993, National Taxpayers Union.

TRANSPORTATION

National 55 mph Protest Drive Scheduled. On Sunday, April 25, groups of motorists across the country will drive exactly 55 mph on highways still posted 55 — using *civil obedience* to "prove beyond a shadow of a doubt that 55 and all under-posted limits are a hindrance to smooth, safe, and efficient traffic flow." For more details or an information packet ($10), contact the National Motorists Association, 6678 Pertzborn Road, Dane, WI 53529; phone 608/849-6000.

Does Chicago Mass Transit Need More Money? No one knows, according to Arthur Lyons of the Center for Economic Policy Analysis, because budget documents produced by the Chicago Transit Authority are so inadequate. The complexity of government budgets poses a serious obstacle for budget analysts and taxpayers wishing to oversee the spending of their tax dollars. Peter Bernstein and Arthur Lyons, "Coming Up Empty: A Search for Information in CTA Budget Documents, 1988-92," October 1992. Contact the Center for Economic Policy Analysis, 59 East Van Buren Street #1716, Chicago, IL 60605; phone 312/786-1825.

WELFARE

Strategies for Wisconsin Welfare Reform. Four strategies are set forth as "perhaps imperative" for welfare reform in the state. *One:* devise "early intervention" mechanisms to reduce the proportion of the population that will become financially dependent when elderly. *Two:* design public assistance programs that encourage self-sufficiency. *Three:* improve the efficiency and cost-effectiveness of programs and their administration. *Four:* seek a better understanding of what fosters dependency, and tailor programs to intervene before dependency develops. David J. Alesch, "Reforming Welfare in Wisconsin," *Wisconsin Policy Research Institute Report*, February 1993, The Wisconsin Policy Research Institute.

What Works to Alleviate Poverty? Earned income tax credits have been very effective in reducing poverty; an additional billion dollars of EITC benefits removes 258,000 people from poverty — a cost of just $3,870 per person. By contrast, an additional billion dollars of Medicare expenditures moves just 5,400 people out of poverty — a cost of $185,000 per person. *What doesn't work at all?* The school lunch program, AFDC, food stamps, public housing. Joint Economic Committee Republican Staff, "The Effectiveness of Income Transfers in Reducing Poverty," December 29, 1992. Contact the JEC/GOP, Room 805 Hart, Washington, DC 20510; phone 202/224-0374.

Milwaukee County Losing War Against Poverty. For every $1.00 spent by Milwaukee County on efforts to eradicate poverty, only 37 cents actually reaches the poor in the form of direct cash assistance. The poor remain poor because they receive very little of the money that is spent on them. If the $1 billion spent by Milwaukee County on poverty programs went directly to the poor, the average AFDC family — a mother and her two children — would have received over $31,000. John A. Wagner, "The Puzzle of Welfare Policy," *Wisconsin Interest*, Summer/Fall 1992, The Wisconsin Policy Research Institute.

OTHER TOPICS

Media Polls on Gun Control Unreliable. Polls taken by Gallup, Harris, *Time*, *Newsweek* and others to ascertain public support for gun control measures suffer from serious methodological flaws, including: skewed wording of questions, sampling bias, and interviewer effects. "Media polls on gun control are often not scientific and should be interpreted with caution. Media polls may tend to exaggerate popular support for gun control measures." Gary A. Mauser and David B. Kopel, "Sorry, Wrong Number: Why Media Polls on Gun Control Are Often Unreliable," available from Prof. Gary Mauser, Faculty of Business Administration, Simon Fraser University, Burn-

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Research Report

aby, British Columbia, Canada V5A 1S6; phone 604/291-3708.

Empowerment Sought by Grassroots Activists. Resident management of public housing, parental choice in education, and elimination of tax barriers that discourage entrepreneurship are "empowerment" policies designed to help individuals take control of their lives and their communities. Case studies of how such efforts already are working across the country, and recommendations for how they can be expanded, are included. *Empowerment: A Blueprint for Change*, January 1993. Contact The Empowerment Network, 1606 King Street, Alexandria, VA 22314; phone 703/548-6619.

Corporate Philanthropy Funds Opponents of Capitalism. "The leaders of our free enterprise system, egged on by a philanthropic elite claiming to act in their name, are allowing the fruits of capitalism to be used to destroy it." In other words, corporate philanthropists all too often give to organizations that encourage the growth of government and perpetuate a sense of dependency rather than individual creativity, equal opportunity, and entrepreneurship. Marvin Olasky, Daniel T. Oliver, and Stuart Nolan, *Patterns of Corporate Philanthropy: The Progressive Deception*, 1992, Capital Research Center.

Understanding Think Tanks. The Lilly Endowment has produced an introduction to the "think tank" movement that could prove extremely valuable to state legislators and media (who often are the principal audiences for "think tank" research) and philanthropists (who often are the targets of "think tank" requests for support). The publishers write, "We hope the articles contained in this special report will help clarify the unique role of think tanks and will heighten awareness of the efforts made on all sides to assure a constant flow of powerful ideas." *Progressions*, November 1992. Complimentary copies of the report are available; contact Lilly Endowment,

(Continued on Page 28)

Government Unions

America's Bureaucratland

By Kirby Brant

MILWAUKEE, WISCONSIN — Wisconsin was a pioneer in license-plate bragging. Its "America's Dairyland" was on the streets well before "Land of Lincoln" and "Famous Potatoes." And "America's Dairyland" has stood the test of time, weathering changes in the character of Wisconsin's economy.

But dairying now has a serious rival. Wisconsin quietly has grabbed the lead in another of the country's main industries: the production and feeding of state and local government employees.

Wisconsin pays its government employees *41 percent* more than the average Wisconsin worker, public and private, earns. Wisconsin's bureaucrat premium is twice the national average: The average public-sector employee in the U.S. is paid "just" 20 percent more than the average taxpayer.

Wisconsin's bureaucrat premium might be justified if its public-sector employees were better skilled, more highly educated, or more productive than the average Wisconsin citizen employed in the private sector. But none of these explains the difference between public and private compensation.

What *does* help explain the bureaucrat premium? *Public policy piracy*, accomplished in 1977 through the enactment of the Compulsory Binding Arbitration Law ("Med-Arb" for short).

As Med-Arb works in practice, initial negotiations with government employee unions are carried out with the employer (taxpayer) represented by public bodies like city councils or school boards. Right away a problem is discernible: The people who do the work for these public bodies are themselves government employees. Their own incomes ultimately depend on the raises secured by the unions. They have few incentives, if any, to challenge union demands for more money.

Occasionally, the public body gets stubborn and keeps the bureaucrats from delivering an agreement to the union. Bargaining stops and arbitration begins.

Med-Arb requires the arbitrator to choose between the last offer of one side or the other; the arbitrator cannot split the difference. Incredibly, the arbitrator rarely considers the ability of taxpayers to fund a raise or the economic condition of the community in question. All that counts under Med-Arb is what bureaucrats get paid in similar communities.

> The "feeding" of government employees has become a leading industry in Wisconsin.

In early 1991, the Wisconsin Counties Association tried to get a five-year moratorium on compulsory arbitration through the legislature. The measure failed — yet another demonstration of the power of public employee unions.

Wisconsin is securely "America's Bureaucratland" as long as Med-Arb stands. In fact, bureaucracy might well surpass dairying as our leading industry. The legislature must act, either to dump Med-Arb now or to dump a lot of license plates in the future.

# # #

Kirby Brant is Wisconsin president of The Heartland Institute.

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Research Report

Inc., P.O. Box 88068, Indianapolis, IN 46208; phone 317/924-5471.

Paying the Price in Sweden. Sweden, which some say has "found the perfect balance between the security of socialism and the dynamism of capitalism," has paid a steep price for this achievement. The Swedish government taxes away some 55 percent of the country's GNP; government spending is climbing toward 70 percent of GNP. In 1990, the public school system had 70,000 employees — 53 percent more than in 1970, although enrollment increased by only 2 percent during the two decades. Henrik Bering-Jensen, "Prosperity Taxes Swedes," *Insight*, December 7, 1992.

Will States Still Exist in the 21st Century? "[O]ne state's foolishness need not be adopted by another, but Federal foolishness is universal," writes former Delaware Governor Pete du Pont. "[T]he path of centralization leads to frustration, calcification, and decline; the path of Federalism to the boundless opportunity our forbearers saw in their new country and sought to bequeath to future generations of Americans." "Federalism in the Twenty-First Century: Will States Exist?" Committee for American Leadership, P.O. Box 1480, Wilmington, DE 19899; phone 302/651-7728.

Women Prefer Big Government. Polls taken since the early 1970s have shown that ❖ women are more pessimistic than men about the country's economic future; ❖ that women are more risk-averse than men; and ❖ that women prefer a stronger role for government in all matters (not just "women's issues") than men. "I think women feel that they have been more or less abandoned by men and therefore they are looking for someone to supply those things that in a traditional American society men were there for. . . . Women can get from government the things that they once relied on their spouses for." Kate O'Beirne, moderator, "What Do Women Want?" *The Heritage Lectures 421*, 1992, The Heritage Foundation.

Education

Choice Deserves a Chance in Michigan

By Robert Wittmann

LANSING, MICHIGAN — Should parents be allowed greater freedom to choose the schools their children attend? In the past few years, the idea of "educational choice" has received an astonishing level of political, popular, and intellectual support.

Since 1989, twenty states have adopted some form of it. And in 1991, a poll conducted for the Michigan Board of Education found that 61 percent of Michiganians favored it, at least within their local district.

Against this backdrop, the Michigan Legislature directed each of the state's 563 school districts to draw up a plan to implement an in-district choice program for the 1992-93 school year. Unfortunately, a new study from The Mackinac Center for Public Policy reveals that most school districts perceived the Legislature's mandate not as an opportunity, but rather as a burden.

Most districts simply formalized existing (and often very limited) transfer policies with few changes. Most Michigan parents have no more choice now than they had before the Legislature acted.

The Wyoming District in Kent County stands out as one of very few places in Michigan where public school authorities not only embraced the choice concept, but are energetically creating diversity within their district to make it meaningful. The district is emphasizing decentralized site-based management, a wide array of curricular offerings, and new opportunities for parental involvement.

Michigan's experience with in-district choice reveals that choice needs a bigger boost than either current legislation or the good deed of a very few innovators can provide.

A more promising approach would be to reformulate state funding and tie it directly to the enrollment decisions of parents. State aid should follow students to their schools of choice, including schools in neighboring districts.

Additionally, the Legislature could encourage school boards to charter new public schools in order to diversify a district's offerings and maximize the range of choices available. Teachers or even administrators could be empowered to set up such alternatives.

> Michigan school district officials saw choice as a burden, not an opportunity.

Ultimately, choice ought to embrace private schools as well. Changing the Michigan Constitution to permit parents to send their children to either public or private schools with state "vouchers" would not only create healthy competition in the education business, but probably would generate a host of new schools, too.

Choice didn't fizzle in Michigan because it was tried and found wanting. Choice was tried in name only in Michigan. It's high time the state got down to business and made choice a reality.

# # #

Robert Wittmann is president of the TEACH Michigan Education Fund and an education policy analyst for The Mackinac Center for Public Policy.

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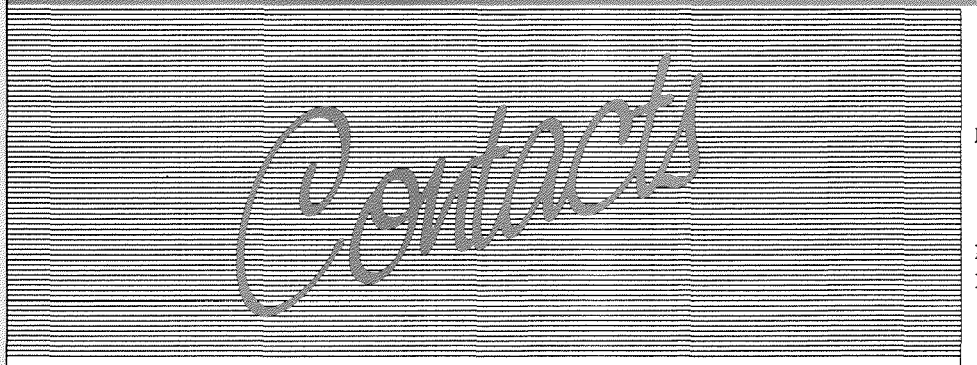

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